

Message Text

UNCLASSIFIED

PAGE 01 THE HA 04216 01 OF 02 251628Z

50

ACTION EUR-25

INFO OCT-01 ISO-00 ABF-01 AID-20 CEA-02 CIAE-00 COME-00

EB-11 EA-11 FRB-02 INR-10 IO-13 NEA-10 NSAE-00 RSC-01

OPIC-12 SPC-03 TRSE-00 CIEP-02 LAB-06 SIL-01 OMB-01

DODE-00 PM-07 L-03 H-03 PA-03 PRS-01 USIA-15 DOTE-00

AGR-20 TAR-02 HEW-08 STR-08 HUD-02 DRC-01 SCI-06

EPA-04 CEQ-02 /217 W

----- 057645

R 251526Z SEP 73

FM AMEMBASSY THE HAGUE

TO SECSTATE WASHDC 2043

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS SECTION 1 OF 2 THE HAGUE 4216

PASS TREASURY

E.O. 11652: N/A

TAGS: EFIN, NL

SUBJ: NETHERLANDS 1974 BUDGET PROPOSAL

REF: HAGUE 4098

SUMMARY: FIRST DEN UYL BUDGET PRESENTED TO PARLIAMENT

SEPT 18 BY MINFIN DUISENBERG AFTER SPEECH FROM THRONE (REFTEL)

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 THE HA 04216 01 OF 02 251628Z

WAS BILLED AS TOOL TO FIGHT INFLATION AND UNEMPLOYMENT, BUT

OBVIOUSLY SERVES ALSO AS VEHICLE FOR INTRODUCTION OF SOCIAL POLICIES DESIRED BY NEW LEFT OF CENTER GOVERNMENT. THUS TAX INCREASES HIT OWNERS OF CAPITAL, HOMES AND CARS, VAT REMAINS UNCHANGED, AND THERE ARE SMALL REDUCTIONS FOR SINGLE PERSONS WITH CHILDREN, WORKING MARRIED WOMEN, AND SMALL BUSINESS ENTERPRISES. ON EXPENDITURE SIDE THERE ARE INCREASES FOR EDUCATION, SOCIAL WELFARE, SPORTS, CULTURE, AND FOREIGN AID. DEFENSE EXPENDITURE UP IN CURRENT PRICES BUT DOWN IN REAL TERMS AND AS PERCENTAGE OF NET NATIONAL INCOME. PROJECTED DEFICIT OF 2 BILLION GUILDERS TO BE FINANCED FROM GOVERNMENT PENSION FUNDS WITHOUT RECOURSE TO CAPITAL MARKET. TAX BIAS AGAINST HIGH FUEL CONSUMPTION VEHICLES COULD REDUCE PROSPECTS FOR REVIVAL IN US CAR SALES, AND PROPOSED REINTRODUCTION OF LONG-PENDING SELECTIVE INVESTMENT LEVY COULD MAKE INVESTMENT CLIMATE LESS ATTRACTIVE, BUT ON WHOLE US ECONOMIC OBJECTIVES IN NETHERLANDS SHOULD NOT BE SIGNIFICANTLY AFFECTED BY THIS BUDGET. AS QUEEN'S SPEECH POINTED OUT, HOWEVER, 1974 BUDGET IS ONLY "FIRST STEP" TOWARD INTRODUCTION OF STRUCTURAL CHANGES DESIRED BY DEN UYL GOVERNMENT, AND FUTURE EVOLUTION OF GON FISCAL POLICY COULD MAKE LIFE MORE DIFFICULT FOR US AND OTHER PRIVATE INVESTORS HERE. END SUMMARY.

1. UNDERLYING PHILOSOPHY OF NEW BUDGET. 1974 BUDGET PROPOSAL REPRESENTS EFFORT BY DEN UYL GOVERNMENT TO STRIKE MIDDLE COURSE BETWEEN NEED TO CURB COST PUSH INFLATION AND AT SAME TIME TO INTRODUCE MEASURES DESIRED BY POLITICAL LEFT TO EFFECT "STRUCTURAL CHANGE IN DUTCH SOCIETY," E.G. TO REDUCE DISPARITIES IN INCOME AND WEALTH, REDUCE UNEMPLOYMENT, AND IMPROVE QUALITY OF LIFE FOR AVERAGE CITIZEN. THIS PHILOSOPHY AND DILEMMA IT POSES WERE WELL DESCRIBED IN SPEECH FROM THRONE (HAGUE 4098). RESULT IS COMPROMISE, WITH SOME SHIFT IN EMPHASIS AMONG MAIN EXPENDITURES HEADINGS TO BENEFIT OF SOCIAL PROGRAMS, SOME SHIFT IN TAX STRUCTURE TO DETRIMENT OF WEALTHIER CLASSES, A 10.6 PERCENT INCREASE (OVER REVISED 1973 LEVEL) IN EXPENDITURE IN CURRENT PRICES, BUT WITH COUNTER-INFLATIONARY EFFECT BECAUSE REVENUE IS PROJECTED TO RISE AT 14 PERCENT.

2. REVENUE.

--EXCISE TAX ON GASOLINE UP 3.86 DUTCH CENTS PER LITER AND
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 THE HA 04216 01 OF 02 251628Z

ON DIESEL FUEL UP 1.57 CENTS (ESTIMATED YIELD FL 240 MILLION);

--WEALTH TAX RAISED TO 0.8 PERCENT WITH NO CHANGE IN MINIMUM
TAXABLE LEVEL (ESTIMATED YIELD 60 MILLION);

--IMPUTED RENTAL VALUE OF OWNER OCCUPIED DWELLINGS WILL BE
RAISED FOR ALL BUT LOWEST CATEGORY (ESTIMATED YIELD 110 MILLION);

--ALLOWANCE FOR PRIVATE USE OF NON-PRIVATE VEHICLES WILL BE REDUCED TO 20 PERCENT (ESTIMATED YIELD 130 MILLION);

--AUTOMATIC CORRECTION OF INCOME TAX TO COMPENSATE TAX-PAYER FOR INFLATION WILL BE DISCONTINUED (ESTIMATED YIELD 640 MILLION);

--RETIREMENT PENSION CONTRIBUTIONS BY SELF-EMPLOYED TO BE LOWERED (ESTIMATE REVENUE LOSS 90 MILLION);

--TAX CONCESSIONS TO SINGLE PEOPLE WITH CHILDREN AND WORKING MARRIED WOMEN (ESTIMATED LOSS 35 MILLION);

--5 PERCENT INCREASE IN MINIMUM TAXABLE INCOME LEVEL AND TAX REDUCTION FOR LOWEST STEP (ESTIMATED LOSS 370 MILLION);

--VAT ELIMINATED ON INVESTMENT CONSTRUCTION COSTS (ESTIMATED LOSS 100 MILLION);

--GOVERNMENT HAS EXPRESSED INTENT TO HOLD DOWN CHARGES FOR GOODS AND SERVICES IT PRODUCES, BUT ALSO ANNOUNCED PLANS FOR PRICE HIKE IN NATURAL GAS YIELDING 210 MILLION AND FOR SECURITY DEPOSITS IN CONNECTION WITH NEW CAR SALES YIELDING 100 MILLION WHICH ARE DELIBERATELY INTENDED TO CURB RATE OF GROWTH IN NATIONAL CAR POPULATION. IT IS FURTHER REPORTED THAT GOVT MAY PROPOSE NEW TAX SYSTEM FOR CARS INVOLVING HIGHER TAXES FOR THOSE CONSUMING MORE GASOLINE.

3. EXPENDITURE: BUDGETS FOR DEFENSE AND FOREIGN AID HAVE BEEN DISCUSSED IN SEPTELS. HEADINGS SHOWING GREATEST PERCENTAGE INCREASES OVER REVISED 1973 BUDGET LEVELS ARE JUSTICE AND POLICE (UP 18 PERCENT), SOCIAL SERVICES (UP 40 PERCENT), AND HOUSING (UP 18 PERCENT). ONLY HEADING UNCLASSIFIED

UNCLASSIFIED

PAGE 04 THE HA 04216 01 OF 02 251628Z

TO SHOW DECLINE IS TRADE AND INDUSTRY.

4. ECONOMIC IMPACT. AS INDICATED ABOVE, GLOBAL IMPACT OF BUDGET, IF APPROVED, WOULD BE MILDLY COUNTERINFLATIONARY. TAKEN TOGETHER WITH LATEST GUILDER REVALUATION, BUDGET WILL HOPEFULLY CONTRIBUTE TO REDUCTION OF PRICE INFLATION FROM PRESENT 8 PERCENT TO 6 PERCENT IN 1974. DEN UYL ADMINISTRATION IS CLEARLY HOPING THAT THIS WILL WEIGH HEAVILY IN UPCOMING LABOR/MANAGEMENT/GOVERNMENT NEGOTIATIONS FOR 1974 GENERAL WAGE AGREEMENT. POSSIBILITY OF FINANCING DEFICIT FROM PENSION FUNDS ALREADY IN GOVT HANDS ENHANCES COUNTERINFLATIONARY EFFECT OF FISCAL OPERATIONS.

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 THE HA 04216 02 OF 02 251634Z

50

ACTION EUR-25

INFO OCT-01 ISO-00 ABF-01 AID-20 CEA-02 CIAE-00 COME-00

EB-11 EA-11 FRB-02 INR-10 IO-13 NEA-10 NSAE-00 RSC-01

OPIC-12 SPC-03 TRSE-00 CIEP-02 LAB-06 SIL-01 OMB-01

DODE-00 PM-07 L-03 H-03 PA-03 PRS-01 USIA-15 DOTE-00

AGR-20 TAR-02 HEW-08 STR-08 HUD-02 DRC-01 EPA-04

SCI-06 CEQ-02 /217 W

----- 057687

R 251526Z SEP 73

FM AMEMBASSY THE HAGUE

TO SECSTATE WASHDC 2044

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS SECTION 2 OF 2 THE HAGUE 4216

5. IMPLICATIONS FOR US COMMERCIAL INTERESTS: OF SOME CONCERN TO US CAR PRODUCERS IS PROPOSED REVISION OF MOTOR VEHICLE TAX SCHEDULE TO PENALIZE HIGH GASOLINE CONSUMERS. WHILE INTENT OF REVISIONS IS TO SAVE FUEL AND REDUCE POLLUTION, EFFECT COULD BE TO CREATE YET ANOTHER NON-TARIFF BARRIER TO REVIVAL IN EXPORTS OF LARGER AMERICAN CARS. NOT COVERED IN BUDGET MEMORANDUM IS PROPOSAL (HAGUE 4098) TEMPORARILY TO REINSTATE 5 PERCENT TAX ALLOWANCE ON INDUSTRIAL CONSTRUCTION AS SPUR TO EMPLOYMENT. HOWEVER, PARLIAMENT WILL ALSO BE CONSIDERING PROPOSAL WHICH WOULD INTRODUCE SYSTEM OF PERMITS AND LEVIES ON INDUSTRIAL CONSTRUCTION(UP TO 25 PERCENT OF UNCLASSIFIED

UNCLASSIFIED

PAGE 02 THE HA 04216 02 OF 02 251634Z

CONSTRUCTION COSTS) IN WESTERN PART OF COUNTRY AS MEANS OF DISCOURAGING FURTHER INDUSTRIAL CONCENTRATION (AND THEREBY POLLUTION) IN HEAVILY POPULATED ZONE (SEE THE HAGUE A-173, AUG 31, 1973 NOTAL). THESE AIMS DIFFICULT TO RECONCILE, BUT IF ADOPTED PROBABLE NET EFFECT WOULD LIKELY BE LESS ATTRACTIVE INVESTMENT CLIMATE, PARTICULARLY IF EVENTUAL MEASURES TAKEN GO BEYOND PRESENT PROPOSALS. AS FAR AS US EXPORTS ARE CONCERNED, NEW BUDGET APPEARS TO OFFER FEW NEW OPPORTUNITIES. BIGGER HOUSING APPROPRIATION COULD GIVE HELPFUL PSYCHOLOGICAL BOOST TO OUR BUILDING MATERIALS TRADE MISSION ARRIVING OCTOBER 6 BUT GOVERNMENT SAYS MOST OF INCREASE WILL GO FOR IMPROVEMENT OF EXISTING PUBLIC HOUSING RATHER THAN NEW STARTS. IMPACT ON OUR MILITARY SALES PROGRAM ANALYZED IN HAGUE 4181. WE WILL CONDUCT LINE ITEM REVIEW OF MINISTERIAL INVESTMENT PROGRAMS AS EACH IS APPROVED TO SEEK TO IDENTIFY SPECIFIC TRADE OPPORTUNITIES.

6. COMMENT: SINCE ALL PARTIES HAVE FOUND SOMETHING TO CRITICIZE IN BUDGET (SEE HAGUE 4134) IT IS PROBABLY PRETTY GOOD BUDGET. IT REPRESENTS CREDIBLE FIRST CUT AT RECONCILING CONFLICT BETWEEN HOLDING DOWN DEFICIT AND EMBARKING ON NEW SOCIAL PROGRAMS. VIABILITY OF ESTIMATES DEPENDS, OF COURSE, ON DOMESTIC AND INTERNATIONAL PRICE DEVELOPMENTS AND ON WILLINGNESS OF ORGANIZED LABOR TO EXERCISE COMPARABLE MODERATION IN UPCOMING WAGE NEGOTIATIONS. WHILE OPPOSITION (LIBERAL PARTY) HAS MADE CLEAR ITS INTENTION TAKE ISSUE WITH GOVT'S BUDGETARY PROPOSALS AND OFFER ALTERNATIVE BUDGET, AND LIVELY PARLIAMENTARY DEBATES ARE ANTICIPATED, A MAJORITY OF THE PROPOSALS STAND A GOOD CHANCE OF BEING ADOPTED WITHOUT SUBSTANTIAL CHANGES BEING MADE IN THEM. EVENTUAL BUDGET WILL BE ANALYZED IN DETAIL UNDER CERP WHEN IT BECOMES FINAL ABOUT YEAR'S END.
TANGUY

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BUDGET ESTIMATES
Control Number: n/a
Copy: SINGLE
Draft Date: 25 SEP 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973THEHA04216
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: THE HAGUE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730911/aaaaahou.tel
Line Count: 258
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: HAGUE 4098
Review Action: RELEASED, APPROVED
Review Authority: kelleyw0
Review Comment: n/a
Review Content Flags:
Review Date: 29 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <29-Aug-2001 by reddocgw>; APPROVED <06 MAR 2002 by kelleyw0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: NETHERLANDS 1974 BUDGET PROPOSAL
TAGS: EFIN, NL
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005